

Message Text

CONFIDENTIAL

PAGE 01 ROME 11365 01 OF 02 121953Z
ACTION INR-05

INFO OCT-01 SS-14 ISO-00 CIAE-00 EUR-08 NSC-05 NSCE-00
EB-04 /037 W

-----025200 122038Z /63

R 121730Z JUL 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5830

TREASURY DEPT WASHDC

C O N F I D E N T I A L SECTION 1 OF 2 ROME 11365

LIMDIS

E.O. 11562: GDS

TAGS: EFIN, IT

SUBJECT: DATA ON MINISTER OF FINANCE FILIPPO PANDOLFI

REF: STATE 150637

1. FOLLOWING IS REPLY TO REFTEL. SEPTELS REPORT ON MINTREAS STAMMATI AND MINFORTRADE OSSOLA. (NOTE: ITALY'S MINISTRY OF FINANCE SHOULD NOT BE CONFUSED WITH THE TREASURY. IN US TERMS, THE FINANCE MINISTRY IS ROUGHLY EQUIVALENT TO A COMBINATION OF THE INTERNAL REVENUE SERVICE AND THE TAX POLICY SECTION OF THE TREASURY DEPARTMENT. INTERNATIONALLY, IT IS RESPONSIBLE IN PARTICULAR FOR DOUBLE TAXATION AGREEMENTS AND FOR EC TAX HARMONIZATION QUESTIONS. THUS, IT GENERALLY DEALS WITH THE REVENUE SIDE OF PUBLIC FINANCE WHILE TREASURY DEALS WITH THE EXPENDITURE SIDE.)

2. POSITION/PROMINENCE. PANDOLFI'S EARLIER EXPERIENCE IN THE FINANCE AND TREASURY COMMITTEE OF THE CHAMBER OF DEPUTIES AND, SUBSEQUENTLY, HIS ASSIGNMENT AS UNDER SECRETARY OF FINANCE IN THE FOURTH AND FIFTH MORO GOVERNMENT WERE VERY USEFUL BACKGROUND FOR THE ACTIVIST
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 11365 01 OF 02 121953Z

ROLE WHICH HE HAS ASSUMED IN MANAGEMENT OF ITALY'S TAX SYSTEM. SINCE TAKING OVER THE MINISTRY, PANDOLFI HAS BEEN OCCUPIED WITH THREE IMPORTANT TAX QUESTIONS:

1) MAKING ITALY'S REFORMED TAX SYSTEM (I.E. INTRODUCTION OF VALUE ADDED TAX IN 1973 AND OF NEW PERSONAL CORPORATE, AND LOCAL INCOME TAXES IN 1974 INCLUDING SHARP EXPANSION OF WITHHOLDING TAX SYSTEM) WORK, 2) ADOPTING NEW TAX

MEASURES AS PART OF ITALY'S CURRENT ECONOMIC STABILIZATION EFFORT, AND 3) ELIMINATING TAX EVASION BOTH OF INDIRECT TAXES (ESPECIALLY THE VALUE ADDED TAX) AND OF PERSONAL INCOME TAXES. PANDOLFI HAS MADE A PARTICULARLY STRONG EFFORT THROUGH THE PRESS AND TELEVISION TO CONVINCE THE PUBLIC OF HIS DETERMINATION TO SUCCEED IN COMBATTING TAX EVASION. AT THE SAME TIME, HE HAS BEEN REGULARLY INCLUDED BY PRIME MINISTER ANDREOTTI IN THE LIMITED GROUP OF ECONOMIC MINISTERS WHO ARE RESPONSIBLE FOR FORMULATION OF ITALY'S OVERALL ECONOMIC POLICIES.

3. HOW FIRM POSITION? PANDOLFI'S POSITION IN THE ANDREOTTI GOVERNMENT SEEMS QUITE STRONG, AS DO HIS PROSPECTS FOR BEING GIVEN AN ECONOMIC PORTFOLIO IN FUTURE DEMOCRATIC (DC) POLITICS SINCE 1962, AND 50 YEARS OF AGE, HE IS NOT IDENTIFIED IN THE PUBLIC MIND WITH THE "OLD GUARS," THIS BEING THE FIRST CABINET POST HE HAS HELD. HIS POSITION HAS UNDOUBTEDLY BEEN ENHANCED BY PROMINENCE GIVEN RECENTLY IN ITALY TO ISSUE OF TAX COLLECTION AND REMARKABLE SUCCESS ACHIEVED (TOTAL TAX RECEIPTS WILL ROUGHLY DOUBLE BETWEEN 1975 AND 1977). PANDOLFI'S CONTRIBUTION TO THIS ENVIABLE RECORD IS RELATIVELY MINOR COMPARED TO EFFECTS OF FISCAL DRAG, LUMPING OF TWO YEARS' INCOME TAX COLLECTIONS IN ONE YEAR AND CUMULATIVE EFFECT OF VARIOUS MEASURES UNDERTAKEN IN RECENT YEARS. NONETHELESS, PANDOLFI'S OWN CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ROME 11365 01 OF 02 121953Z

EFFORTS -- AIMED PRIMARILY AT MAKING EXISTING ADMINISTRATIVE MACHINERY WORK BETTER - - HAVE NOT BEEN MARGINAL, AND HE HAS CERTAINLY BENEFITTED FROM GOI'S SUCCESS IN THIS FIELD. IN ADDITION, HIS TECHNICAL COMPETENCE (RECOGNIZED BY THE OTHER POLITICAL PARTIES AS WELL), HIS ENTHUSIASTIC DEDICATION TO HIS JOB, THE POPULARITY OF HIS ANTI TAX EVASION EFFORTS AND HIS SINCERE AND PLEASING PERSONALITY HAVE ALL CONTRIBUTED TO MAKING PANDOLFI PROBABLY ONE OF TWO LEADING LIGHTS (ALONG WITH LABOR MINISTER TINA ANSELMINI) AMONG NEW GENERATION OF DC LEADERSHIP IN ANDREOTTI CABINET.

4. IMPORTANCE IN POLICY FORMULATION. PANDOLFI HAS BEEN REGULARLY INCLUDED AMONG THE FOUR CHIEF ECONOMIC MINISTERS (TREASURY, FOREIGN TRADE, BUDGET AND FINANCE) WHOM ANDREOTTI HAS MADE RESPONSIBLE FOR FORMULATION OF ITALY'S OVERALL ECONOMIC POLICIES. IN PART , THIS IS DUE TO PANDOLFI'S TECHNICAL EXPERTISE BUT ALSO TO THE FACT THAT TAX POLICY HAS BECOME A VERY IMPORTANT PART OF ITALY'S STABILIZATION EFFORT. NONETHELESS, PANDOLFI HAS ON SEVERAL OCCASIONS GONE OUT ON A LIMB BY STATING, FOR EXAMPLE,

THAT THERE WOULD BE NO DIRECT TAX INCREASES WHILE
OTHER CABINET MEMBERS--PARTICULARLY STAMMATI-- REFERRED
TO PUBLICLY KEEP THE OPTIONS OPEN WHILE THE STABILIZA-
TION PROGRAM WAS BEING DEVELOPED. THERE SEEM TO BE
SEVERAL MOTIVATIONS FOR HIS RELUCTANCE TO APPROVE NEW
TAXES: 1) A BELIEF THAT THE 1973/74 TAX REFORM SHOULD
BE ALLOWED A PERIOD OF TRIAL BEFORE IT IS TAMPERED
WITH, 2) A STRONG CONVICTION THAT THE NEW TAX SYSTEM, PLUS HIS
OWN ANTI-TAX EVASION EFFORTS, WILL RESULT IN GREATER REVENUES THAN
IS GENERALLY EXPECTED, AND 3) A FEAR THAT INFLATION, WORK-
ING THROUGH "FISCAL DRAG," WILL ALREADY CREATE TOO GREAT
A BURDEN ON ITALIAN TAXPAYERS. WHILE THESE ARGUMENTS HAVE
CONSIDERABLE MERIT, PANDOLFI'S COLLEAGUES HAVE NOT WISHED
TO PRECLUDE NEW TAXES IF NECESSARY TO ASSURE ADEQUATE
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 ROME 11365 01 OF 02 121953Z

REVENUES FOR STABILIZATION PURPOSES. IN ANY CASE, PAN-
DOLFI HAS NOT BEEN A SERIOUS COMPETITOR TO STAMMATI AND
OSSOLA ON OVERALL ECONOMIC POLICY ISSUES.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 ROME 11365 02 OF 02 122023Z

ACTION INR-05

INFO OCT-01 SS-14 ISO-00 CIAE-00 EUR-08 NSC-05 NSCE-00

EB-04 /037 W

-----025583 122045Z /63

R 121730Z JUL 77

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5831

TREASURY DEPT WASHDC

C O N F I D E N T I A L SECTION 2 OF 2 ROME 11365

5. ATTITUDES TOWARD BASIC ISSUES. THE FACT THAT
MINISTER PANDOLFI'S RESPONSIBILITY HAS BEEN LIMITED
MAINLY TO TAX QUESTIONS MAKES IT SOMEWHAT DIFFICULT
TO ASSESS WHERE HE STANDS ON BROADER ECONOMIC QUESTIONS.
PRESUMABLY, HIS ACQUIESCENCE IN THE ECONOMIC STABILIZATION
PROGRAM IS EVIDENCE THAT HE DOES NOT HAVE ANY SERIOUS
PROBLEMS WITH THE FREE MARKET APPROACH TO IMPROVING

ITALY'S INFLATION AND BALANCE OF PAYMENTS SITUATIONS. POLITICALLY, PANDOLFI HAS BEEN ASSOCIATED WITH THE DOROTEI FACTION (CENTER) OF THE DC PARTY. IN THE COURSE OF HIS POLITICAL LIFE, HE HAS AVOIDED BECOMING A PARTICULARLY CONTROVERSIAL FIGURE.

6. NEGOTIATING STYLE. THE STRONG POSITION WHICH PANDOLFI HAS TAKEN IN RECENT MONTHS ON THE QUESTION OF NEW TAXES SUGGESTS THAT HE CAN BE STUBBORN IN NEGOTIATIONS. AT THE SAME TIME, EMBASSY CONTACTS WITH PANDOLFI HAVE SHOWN HIM TO BE A PLEASANT, IF SOMEWHAT INTENSE PERSONALITY. HE IS ALWAYS EXCEEDINGLY WELL PREPARED AND CAN RATTLE OFF SERIES OF COMPLICATED STATISTICS AT WILL. THE FACT THAT HE SPEAKS SOME ENGLISH, UNLIKE MANY OF ITALIAN CABINET MINISTERS, IS HELPFUL FOR HIM IN GETTING HIS IDEAS ACROSS.

7. CAN HE DO WHAT HE PROMISES? PANDOLFI, LIKE THE OTHER
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 ROME 11365 02 OF 02 122023Z

MEMBERS OF ANDREOTTI'S ECONOMIC CABINET, IS LIMITED BY ITALY'S POLITICAL AND ECONOMIC DIFFICULTIES. WHILE VARIOUS MINISTERS DECLINED PUBLICLY TO SUPPORT PANDOLFI'S STRONG STAND AGAINST INCOME TAX INCREASES, IN FACT, THESE TAXES HAVE NOT BEEN INCREASED AND ESTIMATED DIRECT TAX REVENUES FOR 1977 CONTINUE TO BE REVISED UPWARD. PANDOLFI HAS MORE RECENTLY CONCEDED THAT THERE MAY BE ADJUSTMENTS IN INCOME TAX RATE SCHEDULES AS WELL AS SOME INCREASES IN 1978. IN THE TAX FIELD THE ANDREOTTI GOVERNMENT HAS BEEN REASONABLY SUCCESSFUL IN APPROVING TAX INCREASES, BECAUSE THE ITALIAN PUBLIC APPEARS WILLING TO ACCEPT SOME FISCAL SACRIFICES. THIS SUGGESTS THAT PANDOLFI MAY BE ABLE TO DELIVER THE GOODS IN THE TAX FIELD. (NOTE: ALTHOUGH THE USG IS PRESENTLY NEGOTIATING A NEW DOUBLE TAXATION TREATY WITH ITALY AND THE TALKS HAVE BEEN SOMEWHAT DIFFICULT, IT DOES NOT SEEM LIKELY THAT PANDOLFI HIMSELF HAS BEEN MUCH INVOLVED.)

8. CAN HIS VIEWS BE INFLUENCED? ALTHOUGH PANDOLFI CAN BE A RATHER DETERMINED MAN, HE ALSO SEEMS TO BE OPEN TO PERSUASION PROVIDED THAT THE ARGUMENTS PRESENTED ARE WITHIN THE LIMITS OF ITALY'S POLITICAL AND ECONOMIC CONSTRAINTS.

9. CURRENT PRESSURES AND POLITICAL FACTORS WHICH INFLUENCE HIM. UNLIKE STAMMATI AND OSSOLA, WHO ARE PREOCCUPIED WITH OVERALL ECONOMIC POLICY, PANDOLFI IS RELATIVELY WELL PLACED AS A "WHITE KNIGHT" IN THE BATTLE AGAINST TAX EVASION. IN THE PAST (BEFORE WITHHOLDING AT THE SOURCE BECAME MORE COMPREHENSIVE

WITH THE 1974 INCOME TAX REFORM) TAX EVASION WAS NOT LOOKED
UPON WITH GREATER DISFAVOR BY THE ITALIAN POPULACE, SINCE
EVERYBODY COULD DO IT. HOWEVER, SINCE WAGE AND
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 ROME 11365 02 OF 02 122023Z

SALARY WORKERS ARE NOW LARGELY UNABLE TO ESCAPE PAYING
THEIR INCOME TAXES, THE LABOR UNIONS WHICH REPRESENT
THEM HAVE BECOME PARTICULARLY STRONG ADVOCATES OF
COMBATting TAX EVASION. AT THE SAME TIME, THE
LABOR UNIONS' OPPOSITION TO SERIOUS REDUCTION IN LABOR
BENEFITS ALSO TENDS TO CONCENTRATE ATTENTION ON USE OF
THE FISCAL TOOL RATHER THAN ON INCOMES POLICIES. THUS,
THE MAIN PRESSURES ON PANDOLFI IN COMING MONTHS ARE
LIKELY TO CONCERN SOME OPPOSITION TO TAX INCREASES BUT
MAINLY PRESSURES AS TO THE DISTRIBUTION OF ANY INCREASED
TAX BURDEN AMONG DIFFERENT INCOME GROUPS.GARDNER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, FINANCE, BIOGRAPHIC INFORMATION
Control Number: n/a
Copy: SINGLE
Sent Date: 12-Jul-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977ROME11365
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770247-1254
Format: TEL
From: ROME
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770766/aaaacfrv.tel
Line Count: 244
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2303e76c-c288-dd11-92da-001cc4696bcc
Office: ACTION INR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: LIMDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: LIMDIS
Reference: 77 STATE 150637
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1888386
Secure: OPEN
Status: NATIVE
Subject: DATA ON MINISTER OF FINANCE FILIPPO PANDOLFI
TAGS: EFIN, IT, (PANDOLFI, FILIPPO)
To: STATE TRSY
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/2303e76c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009